

Alabama PACT

3/31/2014 Quarterly Valuation

May 2014

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Alabama PACT Board

Sherman Actuarial Services, LLC (SAS) was retained to report on the funding status and projected cash flows of the PACT as of March 31, 2014. Since this is a quarterly valuation, there is less detail provided than in the full valuation as of September 30, 2013. The Summary of Funding section on page 4 describes the current results and compares those results to the September 30, 2013 valuation. The results are based on the recent Supreme Court ruling affirming the Settlement.

Assumptions and Methods

1. Data and Assets

The valuation was performed using contract data supplied by the Plan Administrator as of March 31, 2014 and financial data reported to you as of March 31, 2014. SAS did not audit the data although they were reviewed for reasonableness and consistency with the audited September 30, 2013 information. The results of the analysis are dependent on the accuracy of the data.

The asset value as of March 31, 2014 was \$186,779,297.

2. Weighted Average Tuition (WAT)

The assumed WAT values are shown in the following table. The assumed credit hours were unchanged from the September 30, 2013 valuation at 13 hours per semester. The March 31st results are based on the weighting of PACT beneficiaries from recent experience, and the 2010 tuition rates.

	September 30, 2013 Valuation	March 31, 2014 Valuation
Auburn/Alabama	\$7,564	\$7,564
Regional	5,858	5,858
Junior & CC	3,389	3,389
OOS & Private	6,236	6,236

3. Tuition Inflation

For the March 31, 2014 valuation, we assumed a tuition inflation assumption of 0% per year.

4. Investment return

The investment return assumption was unchanged from the September 30, 2013 valuation as shown below.

Fiscal Year	September 30, 2013	March 31, 2014
<u>Ending</u>	<u>Valuation</u>	<u>Valuation</u>
2014	1.30%	1.30%
2015	1.00%	1.00%
2016	1.40%	1.40%
2017+	2.00%	2.00%

5. Payment of Tuition

The March 31, 2014 valuation assumed usage of 128 credit hours at a rate of 13 hours per semester, which is the same as was assumed for the September 30, 2013 valuation.

6. Education Trust Fund Payments

As in the September 30, 2013 valuation, we assumed total contributions of \$547,629,100 from the Education Trust Fund into the PACT Trust Fund. These payments have a present value of \$488,752,448.

7. Cancellations

The assumed cancellation of PACT contracts based on the grade of the beneficiary was unchanged from that assumed as of September 30, 2013 are shown below.

Age 0 through 9th grade	0% per year
10th grade	1%
11th grade	1%
12th grade	1%

8. School Choice

Contract beneficiaries are assumed to attend school according to the probabilities shown in the following table:

<u>College Type</u>	<u>September 30, 2013</u>	<u>March 31, 2014</u>
Private/Out-of-State	17%	17%
Community College	15%	15%
University of Alabama and Auburn University	53%	53%
Other Alabama Universities	15%	15%

9. Administration Expenses

For the March 31, 2014 valuation, we assumed the administrative expenses will be \$500,000 for the remainder of FYE14, \$1,000,000 for FYE15, \$950,000 for FYE16 and FYE17, \$925,000 for FYE18 through FYE25, \$900,000 for FYE26, decreasing by \$100,000 per year for six years then eliminated.

10. Other

All other assumptions and methods are identical to those used in the September 30, 2013 actuarial valuation.

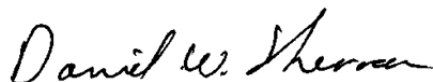
Purpose of This Report

This report is prepared for The State of Alabama PACT Board. It is expected that this report will be used to monitor the funding status and projected cash flows of the PACT. Use of this report for any other purpose may not be appropriate and may result in mistaken conclusions due to failure to understand applicable assumptions, methodologies, or inapplicability of the report for that purpose. No one may make any representations or warranties based on any statements or conclusions contained in this report without the written consent of SAS.

Qualifications

Daniel Sherman is an Associate of the Society of Actuaries, and a Member of the American Academy of Actuaries. He served as the actuary to the Alabama PACT plan for ten years, and is the current actuary for the Texas, and West Virginia prepaid tuition programs. He meets the Qualification Standards of the Academy to render the actuarial opinions contained herein. This report has been prepared in accordance with all applicable Actuarial Standards of Practice, and we are available to answer questions concerning it.

SHERMAN ACTUARIAL SERVICES, LLC



Daniel Sherman, ASA, MAAA, EA
CEO and Consulting Actuary

Summary of Funding

The table below is a summary of the results showing the total costs to the State of Alabama to maintain the program as of March 31, 2014. Note that although the funded status greater than 100%, the cash flow projections show that the fund will be depleted at various points in time before sufficient assets are transferred from the Education Trust Fund.

	September 30, 2013 Annual Valuation	March 31, 2014 Valuation
Assets		
a. Market Value of Assets	231,037,553	186,779,297
b. Present Value of future contract purchaser payments	15,643,284	13,817,898
c. Administrative Expenses	(13,473,403)	(13,059,956)
d. Present Value of Education Trust Fund payments	485,606,200	488,752,448
e. Subtotal (a + b + c + d)	718,813,634	676,289,688
Liabilities		
f. Present Value of tuition and cancellation payments	655,095,893	606,602,539
Funded Status		
g. Reserve (e – f)	63,717,740	69,687,149
h. Funded Ratio	109.5%	111.2%

Projected Cash Flow
March 31, 2014 Valuation
(millions)

Fiscal Year	Benefit Payments	Contract Holder Payments	Education Trust Fund Payments	Admin Expenses	Income	EOY Assets
3/31/2014						\$ 186.8
4/1/14 - 09/30/14	\$-12.4	\$3.4	\$0.00	-\$0.5	\$1.2	178.5
10/01/14 - 09/30/15	-99.1	2.9	23.6	-1.0	1.3	106.2
10/01/15 - 09/30/16	-90.0	2.1	34.0	-1.0	0.9	52.2
10/01/16 - 09/30/17	-83.9	1.7	42.6	-1.0	0.4	12.1
10/01/17 - 09/30/18	-74.0	1.4	61.8	-0.9	-0.2	0.2
10/01/18 - 09/30/19	-60.6	1.0	55.5	-0.9	-0.3	-5.1
10/01/19 - 09/30/20	-50.7	0.7	88.7	-0.9	0.2	32.9
10/01/20 - 09/30/21	-44.3	0.5	31.9	-0.9	0.3	20.4
10/01/21 - 09/30/22	-37.9	0.3	32.2	-0.9	0.2	14.3
10/01/22 - 09/30/23	-30.5	0.2	33.5	-0.9	0.1	16.7
10/01/23 - 09/30/24	-23.2	0.1	33.7	-0.9	0.4	26.8
10/01/24 - 09/30/25	-16.9	0.0	38.4	-0.9	0.8	48.2
10/01/25 - 09/30/26	-11.8	0.0	39.2	-0.9	1.2	75.9
10/01/26 - 09/30/27	-7.8	0.0	32.5	-0.8	1.8	101.6
10/01/27 - 09/30/28	-5.3	0.0	0.0	-0.7	2.0	97.6
10/01/28 - 09/30/29	-3.4	0.0	0.0	-0.6	1.9	95.5
10/01/29 - 09/30/30	-1.8	0.0	0.0	-0.5	2.0	95.2
10/01/30 - 09/30/31	-0.7	0.0	0.0	-0.4	1.9	96.0
10/01/31 - 09/30/32	-0.1	0.0	0.0	-0.3	1.9	97.5
Total	-\$654.4	\$ 14.3	\$ 547.6	-\$ 15.0		

The sum of the values may not match the total shown due to rounding.

Assumptions

- Settlement
- Fall 2010 Tuition rates
- Tuition Inflation at 0%
- Normal Cancellation rates